

Pension Audits & Going Concern Issues

By Jim Pursley, CPA

The recent economic downturn has played heavily on the health and survival of businesses worldwide. Even for General Motors, thought to be one of the strongest companies in our nation, the going concern issue has been raised by its auditors.

As companies fight to stay out of bankruptcy, so too are their pension plans struggling to remain solvent. The past year or so has brought significant and catastrophic investment losses to pension funds across the globe. Many plans are seeing decades of growth and stability dissolving away and their funding ratios being flipped upside down.

In its September 30, 2008 report, the Pension Benefit Guaranty Corporation noted and that for 2009 it estimates \$4.9 billion in benefit payments on behalf of failed pension plans nationwide and that, in 2008 took responsibility for 69 failed pension plans in Missouri alone.

Some recent estimates show negative declines in pension investment values averaging between 20 and 40 percent since the end of 2007. Coupled with these staggering negative rates of return are the plan sponsors' increasing inability to make their required contributions and the plan's inability to meet its obligations to beneficiaries.

In these extraordinary times it is more important than ever that auditors be aware of going concern issues for pension plans.

Auditor's Responsibility

With all of this being said, auditors have a responsibility under SAS 59 to consider whether there is substantial doubt about a pension plan's ability to continue as a going concern for a reasonable period of time (not to exceed one year beyond the financial statement date). SAS 59 states that:

For financial reporting purposes, continuation of a plan as a going concern is assumed in the absence of significant information to the contrary. Ordinarily, information that significantly contradicts the going concern assumption relates to the plan's ability to continue to meet its obligations as they become due without an extraordinary contribution by the sponsor or substantial disposition of assets outside the ordinary course of operations.

The SAS does not spell out specific guidelines for identifying going concern conditions or events, but does require specific assessment of whether conditions were noted during audit procedures, such as applying analytical procedures, reading minutes, reviewing of subsequent events, and inquiring of the plan's legal counsel.

However, the auditor should assume a going concern issue is implied or raised if the following examples of conditions or events are recognized:

Negative Trends

- Benefit payments are not being made when due.
- Significant losses in investment values.
- Loans or similar agreements are defaulting.
- The plan is reducing benefits payable from employer contributions.
- Minimum funding requirements are not being met or requisition of a minimum funding waiver has occurred.

Other Indications of Financial Difficulties

- An extraordinary contribution from the plan sponsor is needed.
- Substantial assets outside the ordinary course of operations need to be liquidated to fund the plan.
- Significant loans are being made or restructured.

Internal Matters

- Bankruptcy, insolvency, liquidation, dissolution, or similar settlement of the plan sponsor(s) is in process.
- Filing of notices to the PBGC that the plan intends to seek a distress termination, or the reporting of a reportable event to the PBGC.

External Matters That Have Occurred

- Legal proceedings or similar matters are occurring that might jeopardize a plan's qualification or ability to operate.
- The plan has a merger or consolidation with another plan.
- Determination by the PBGC that the plan sponsor will be unable to meet its debts and continue in business without a termination of the plan, or that continued pension costs are unreasonably burdensome because of a decline in the workforce covered by the plan.

It is imperative that the auditor also consider circumstances surrounding the business of the plan sponsor. If a plan sponsor has going concern issues it may be a fair assumption that the sponsor's pension plan may also have going concern issues.

In terms of SAS 59, the auditor is not required to identify these conditions during regular audit procedures; rather the usual procedures in performing the audit are sufficient.

Auditor's Response

Upon identification of any of the above listed conditions the auditor should then obtain further information surrounding the condition to make a final determination of going concern.

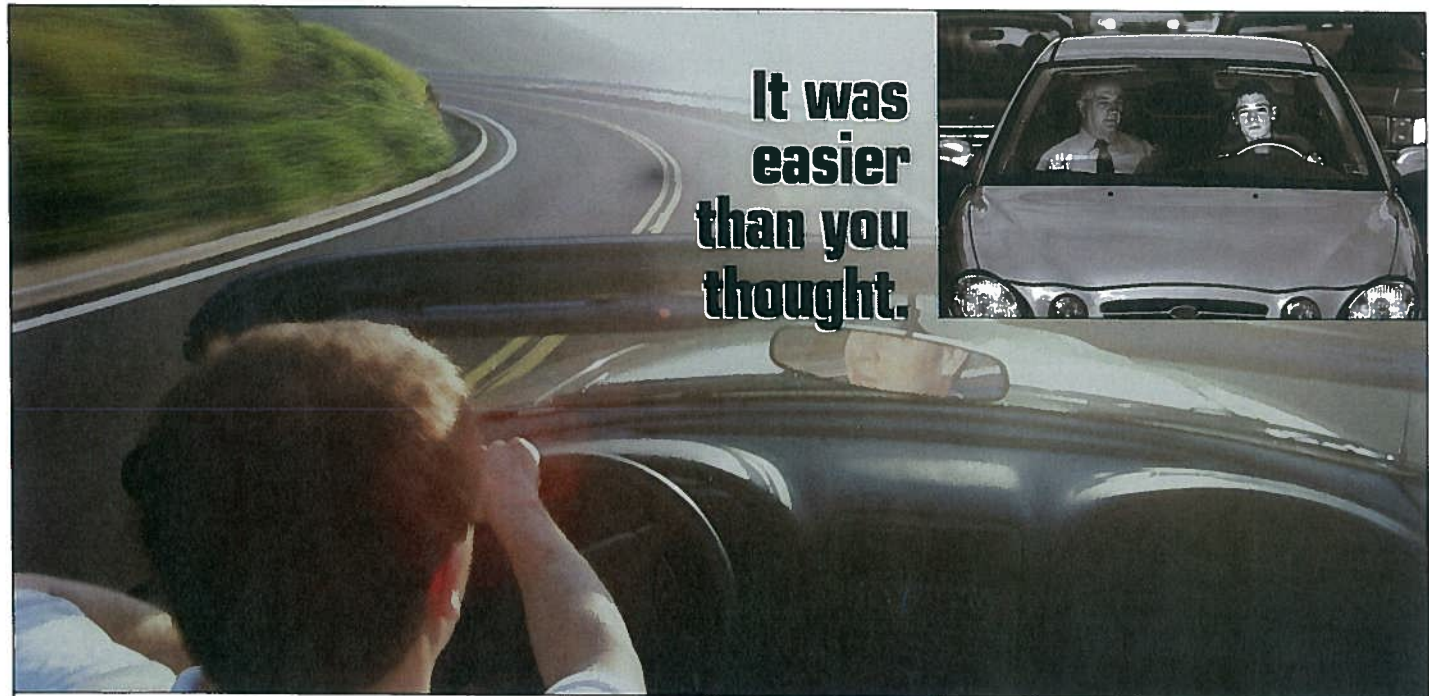
If the auditor then believes there is substantial doubt about the plan's ability to continue as a going concern, they are required to document the following:

- Conditions or events causing the auditor to believe there is substantial doubt about the plan's ability to continue as a going concern.
- The elements of management's plans most significant to overcoming the adverse effects of the conditions or events.
- The auditing procedures performed and evidence obtained to evaluate those significant elements.
- The auditor's conclusion about whether substantial doubt remains or is alleviated and the possible effects on the financial statements and related disclosures.

- The possible effects on the auditor's report, including the auditor's conclusion about whether an explanatory paragraph is necessary and whether to modify the auditor's report for inadequate disclosures.

Auditors should also be aware that SAS 59 does not apply to a plan that has elected to terminate before the end of the plan year. A terminating plan is different in the fact that its financial statements are prepared on the liquidation basis of accounting, and a going concern issue is a moot point.

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